

Message Text

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44

ACTION ARA-10

INFO OCT-01 ISO-00 ARAE-00 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FEAE-00 FPC-01 H-02

INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00

FRB-03 PA-01 PRS-01 (ISO) W
----- 109082

P R 201255Z MAY 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 9321

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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E. O. 11652: N/A

TAGS: ENRG, BR

SUBJECT: MINISTER UEKI TRIGGERS NEW DEBATE ON OIL EXPLORATION
BY FOREIGN COMPANIES

1. SUMMARY-MINISTER OF MINES AND ENERGY SHIGEAKI UEKI HAS REOPENED PUBLIC DEBATE ON POSSIBILITY OF ALLOWING FOREIGN OIL COMPANIES TO CARRY OUT PETROLEUM EXPLORATION IN BRAZIL ON RISK-CONTRACT BASIS. WHILE IT IS STILL TOO EARLY TO PREDICT FINAL GOB DECISION, THE CALCULATED MANNER IN WHICH UEKI'S VIEWS WERE PUT FORTH, PLUS THE VITAL NEED FOR BRAZIL TO DISCOVER SUBSTANTIALLY MORE OIL, INDICATE THAT SOME SENIOR GOB OFFICIALS AT LEAST ARE TRYING TO MODIFY BRAZIL'S PETROLEUM POLICY. BY THE END OF THE WEEK, HOWEVER, IN THE FACE OF VIGOROUS OPPOSITION, UEKI WAS DOWN-PLAYING HIS EARLIER STATEMENT, EMPAHSIZING THAT HE HAD BEEN EXPRESSING A PERSONAL OPINION, NOT GOB POLICY. END SUMMARY.

2. BRAZIL'S OIL PRODUCTION ACCOUNTS FOR ONLY ABOUT TWENTY
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PERCENT OF CONSUMPTION. THROUGHOUT MOST OF LAST YEAR, A

HEATED OPEN DEBATE ON BRAZIL'S PETROLEUM EXPLORATION/ PRODUCTION POLICY TOOK PLACE IN THE CONGRESS, THE MEDIA AND VARIOUS POLITICAL AND BUSINESS CIRCLES. THE DEBATE WAS PROMPTED BY BRAZIL'S SKYROCKETING COSTS FOR IMPORTED OIL (US\$2.9 BILLION F.O.B. IN CY'74 COMPARED TO \$723 MILLION IN CY'73 FOR PRACTICALLY THE SAME QUANTITY) AND THE FACT THAT THE STATE-OWNED MONOPOLY, PETROBRAS, WAS NOT MAKING ENOUGH NEW DISCOVERIES TO MOVE THE COUNTRY TOWARD SELF-SUFFICIENCY (CRUDE OIL PRODUCTION WAS 61 MILLION BARRELS IN 1972, 62 MILLION BARRELS IN 1973 AND 65 MILLION BARRELS IN 1974, COMPARED TO IMPORTS OF 179 MILLION, 261 MILLION, AND 253 MILLION BARRELS, RESPECTIVELY). INDEED, IT APPEARED THAT SOMETIME FOLLOWING THE NOVEMBER 1974 NATIONAL ELECTIONS, A NEW POLICY WOULD BE IMPLEMENTED TO PERMIT FOREIGN OIL COMPANIES TO EXPLORE IN BRAZIL.

3. THE NOVEMBER ELECTION RESULTS AND THE DECEMBER GOB ANNOUNCEMENT OF A REPORTED MAJOR NEW OIL DISCOVERY IN THE CAMPOS BASIN OFF-SHORE FROM THE STATE OF RIO DE JANEIRO SUDDENLY ENDED ANY FURTHER SPECULATION OF ALLOWING A ROLE TO FOREIGN OIL COMPANIES (BRASILIA 9135 OF DEC. 5, 1974).

4. LAST WEEK, MINISTER UEKI SUDDENLY RE-OPENED THE DEBATE. IN AN EXCLUSIVE INTERVIEW WITH THE JORNAL DO BRASIL CARRIED IN ITS MAY 12 EDITION, UEKI STATED THAT IMPORTED OIL REQUIREMENTS ARE JEOPARDIZING THE COUNTRY'S RATE OF DEVELOPMENT AND THAT ALLOWING FOREIGN OIL COMPANIES TO EXPLORE FOR OIL UNDER "RISK CONTRACTS" MIGHT BE IN ORDER. HE STATED FURTHER THAT A POSSIBLE CHANGE IN POLICY WILL BE EVALUATED THROUGH CONSULTATIONS WITH SPECIALISTS, THE CONGRESS, THE PRESS AND PUBLIC OPINION. HE STRESSED THAT IN NO WAY WOULD THERE BE A CHANGE IN THE STATE OIL MONOPOLY NOR ANY CHANGE IN THE PETROLEUM LAW (FYI: UEKI SAID THIS LAST YEAR AS WELL; THE INTERPRETATION GIVEN BY MOST OBSERVERS IS THAT "SERVICE CONTRACTS" WOULD BE SIGNED WITH FOREIGN COMPANIES. END FYI). UEKI EXPLAINED THAT "RISK CONTRACTS" ARE AGREEMENTS MADE WITH FOREIGN OR NATIONAL COMPANIES WHICH ARE WILLING TO EXPLORE AT LIMITED OFFICIAL USE

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THEIR OWN EXPENSE IN ON-SHORE OR OFF-SHORE AREAS ESTABLISHED BY PETROBRAS. A COMPANY WOULD BE "REMUNERATED" ONLY IF IT FINDS PETROLEUM. THE COMPANY WOULD HAVE FIRST CHOICE OF RECEIVING REMUNERATION IN THE FORM OF A PURCHASE OF PETROLEUM IF (RPT IF) THERE WERE AN EXCESSS FOR EXPORT. UEKI STATED THAT BRASPETRO, A PETROBRAS SUBSIDIARY, ALREADY HAS ENTERED INTO SUCH CONTRACTS OVERSEAS, FOR EXAMPLE IN IRAQ. HE CLOSED THE INTERVIEW BY

ASKING THE RHETORICAL QUESTION "WOULDN'T IT BE CONVENIENT TO SIGN RISK CONTRACTS IN AREAS THAT PETROOOOZBRAE CONSIDERS LESS PROMISING, THAT IS AREAS WHERE WE WOULD NOT BE PLANNING

TO INVEST TIME, EFFORT AND MONEY?" UEKI ASKED ALL BRAZILIANS TO GIVE THOUGHT TO THIS QUESTION, WITHOUT EXCESSIVE NATIONALISM OR PASSION BUT WITH INTELLIGENCE AND PATRIOTISM.

5. IMMEDIATE REACTIONS TO UEKI'S REMARKS WERE FAIRLY PRE-DICTABLE. US OIL COMPANIES WITH WHOM WE HAVE TALKED WERE PLEASED BUT SAID THEY WOULD AWAIT FURTHER DEVELOPMENTS. (ALL INTERESTED FOREIGN COMPANIES HAVE LONG AGO INFORMED GOB OF THEIR INTEREST.) ARENA SENATOR FROM ALAGOAS, LUIZ CAVALCANTI, SPOKE OUT, AS BEFORE, IN FAVOR OF EMPLOYING ALL POSSIBLE RESOURCES TO LOCATE MORE OIL, AND FINANCE MINISTER SIMONSEN GAVE SUPPORT TO UEKI'S SUGGESTION. VARIOUS MDB SPOKESMEN HAVE COME OUT AGAINST ANY IN-ROADS BY FOREIGN COMPANIES, AND SOME ARENA STALWARTS HAVE EXPRESSED RESERVATIONS ABOUT MODIFYING NATIONAL OIL POLICY. SENATOR JARBAS PASSARINHO, WHO HAS CLOSE TIES WITH TOP-RANKING MILITARY, COMMENTED THAT UEKI'S PROPOSAL WOULD NOT UPSET THE PETROBRAS MONOPOLY BUT HE WARNED AGAINST ARRANGEMENTS THAT WOULD ALLOW FOREIGN COMPANIES TO TAKE POSSESSION OF ANY OIL FOUND. HE THOUGHT THE MINISTER'S ARGUMENT "IRREFUTABLE" SO LONG AS PROMISING AREAS IN WHICH PETROBRAS WAS ALREADY DRILLING, WERE EXCLUDED.

6. THE JORNAL DO BRASIL IN ITS LEAD EDITORIAL OF MAY 14, AND AGAIN ON MAY 18, STRONGLY SUPPORTED UEKI'S SUGGESTIONS AND CALLED FOR "AT THE VERY LEAST, A DEBATE," O ESTADO DE SAO PAULO ON MAY 14 QUOTED THE MINISTER'S "ADVISORS" AS SAYING THAT HE HAD EXPRESSED " ONLY A PERSONAL OPINION." IN EDITORIALS ON MAY 17 AND MAY 18, THE PAPER STRONGLY SUPPORTED THE MINISTER'S SUGGESTIONS AND CALLED FOR OBJECTIVE DEBATE ON THE ISSUE.
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7. BY THE END OF THE WEEK, UEKI WAS BACKPEDALLIG RAPIDLY AND ISSUED A FORMAL STATEMENT DISCLAIMING ANY INTENTION TO ALTER EXISTING OIL MONOPOLY LEGISLATION AND EMPHASIZING THAT THE SUGGESTIONS MADE DURING HIS MAY 12 JORNAL DO BRASIL INTERVIEW AND ON MAY 15 BEFORE THE SENATE'S MINES AND ENERGY COMMISSION REFLECTED HIS PERSONAL OPINIONS AND NOT GOB POLICY.
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